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SUBJECT: NIGERIA ENERGY UPDATE, April 22

REFS: A: Lagos 731
B: Lagos 568
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[1](#)1. (U) This update includes:

-- Slowly but Surely: Delta Oil Operations Ramp Up

-- Between the Lines: Fuel Shortages Continue During Elections

-- Fits and Starts: NEPA Privatization Continues while Power Capacity Expands Amidst Crises and Outages

Slowly but Surely: Delta Oil Operations Ramp Up

[1](#)2. (U) ChevronTexaco and Shell Oil continue to ramp up their crude oil production in the Niger River delta, after local ethnic violence forced them to close operations in mid-March. Chevron continues to aim for an end of the month production target of 310,000 barrels per day (bpd) (reftel A), down from 460,000 bpd it produced prior to the closures. A spokesperson for Chevron told Econoff on April 17 that the company is producing near 300,000 bpd. Shell Oil publicly stated it had been producing 18,000 bpd from its affected facilities during the first week of April, and a Reuters report indicated that it may soon reach 100,000 of the 320,000 bpd shut-in, if it is not already doing so. Shell produced about 460,000 bpd before the clashes between Ijaw militants and Itsekiri villagers, which ultimately led to the shutting-in of some 800,000 bpd from the region for more than 10 days. Shell reportedly has rescheduled its April exports.

[1](#)3. (U) The U.S. Energy Information Administration (EIA) reports that Nigeria's crude oil exports to the United States fell from 798,000 barrels per day in January to 494,000 bpd in February, ranking it as the sixth largest source of imported oil to the U.S. for the month, behind Mexico, Canada, Saudi Arabia, Iraq and Venezuela. While February 2003 exports exceeded last year's February numbers by some 50,000 bpd, these exports occurred prior to the clashes in the Delta, which shut in some 40 percent of Nigeria's overall crude production.

[1](#)4. (U) Meanwhile, the delta region appears to have remained mostly calm in recent weeks and through the first two rounds of national elections. Acts of violence were reported prior to the April 12 National Assembly elections, and deaths were reported on April 13 after a gun battle erupted between militants and the military during an attempt to hold delayed elections in some Delta State local government areas (LGA). Prior to the elections, President Obasanjo held a meeting with a number of Warri area chiefs and traditional leaders from different ethnic groups in an attempt to restore peace and find a lasting solution to the ongoing tension. No disruption to oil production was reported as a result of election-related violence. The Chevron spokesperson told Econoff on April 22 that the Escravos area remained quiet through the elections thus far, with a presence of about 200 military personnel in the area. Tension may rise with local elections scheduled for May 3, as the original flare-up between the Ijaw and the Itsekiri was based on disputed electoral boundaries for local government representation (reftel B). But, Chevron's spokesperson

believes the group assembled by President Obasanjo is making progress toward reaching an accord.

Between the Lines: Fuel Shortages Continue During Elections

15. (U) During this historic election period, Nigerians are finding themselves waiting in lines, but not just at their polling stations. Fuel queues remain commonplace throughout the country, albeit on a more sporadic basis than experienced in February and March. Reliable and definitive explanations for the ongoing shortages are difficult to come by, as various players in the downstream industry blame one another, and new events continue to overtake GON efforts at resolving the situation.

16. (U) At first, inopportune domestic refinery maintenance, combined with the opportunistic diversion of gasoline shipments bound for Nigeria to more lucrative U.S. and Venezuelan markets, resulted in a serious fuel shortage across all of Nigeria (reftel C). Because the GON mandates an artificially low pump price for fuel products, private marketers withdrew from the import business, leaving the Nigerian National Petroleum Corporation (NNPC) as the sole importer of fuel (reftel D). NNPC professes that it has now brought in enough fuel and is moving it through its subsidiary, the Pipelines and Products Marketing Company (PPMC), and accuses depot managers and marketers of diverting fuel from designated supply routes and filling stations to sell on the black market to those willing and able to pay higher prices.

17. (U) In addition, according to a Lagos-based financial risk consulting firm, Nigerian drivers, sensitive to the ongoing fuel shortage, now generally insist on filling their tanks as often as possible, compared to a pre-crisis habit of keeping, on average, only a third of a tank of gasoline in their cars. Financial Derivatives Company reports that this trend has pushed up daily demand for gasoline from 19 million liters to 32 million. Furthermore, ongoing trouble in the delta region has reduced Nigeria's already inadequate domestic refinery production and makes it even more unpredictable. Just as Chevron brought its Escravos terminal back online and started pumping crude oil to the refinery in Warri, vandals blew up a supply pipeline to the refinery, again halting its production and that of the refinery in Kaduna.

18. (U) Nigerians now face sporadic and unpredictable fuel queues. In Lagos, stations close less often and for shorter periods of time than a few weeks ago, but consumers must still wait in gasoline lines at least several days a week, and black market sellers hawking fuel street-side from jerry cans and plastic jugs still appear during crunch times. Embassy Econoff, traveling through northern Nigeria to Plateau state during the National Assembly elections April 12, reported fuel openly being sold in filling stations at 70 to 120 naira per liter (the government-imposed price is 26 naira per liter). AmConsul Econoff traveling in the Southeast through Anambra and northern Delta states noted extensive fuel queues during the weekends of both the legislative and presidential and gubernatorial elections, the latter having taken place April 19. In the Delta State capital of Asaba, cars were simply left in place unattended in the roadway from all directions approaching gas stations for what appeared to have been several days at a time. Even the drivers of the ubiquitous motorbikes used for public transport were forced to crowd en masse at fuel stations, sometimes leaving their cycles parked at the gates until gas would be sold again.

19. (U) While some of this shut-down may have been due to government efforts to limit movement and commerce on election day, Econoff's driver reported difficulty finding fuel along the way from Lagos to Port Harcourt two days prior to the legislative elections, and in the Asaba-Onitsha area on either side of the Niger River during the presidential and gubernatorial elections. Most stations were not open the Sundays following each election day, and queues formed as early as 6:00 a.m. on the Monday after Easter, a Nigerian national holiday. One independent fuel station owner in southern Anambra state told Econoff that he was forced to sell his gasoline at higher than sanctioned prices because, since late January, he has been able to buy only black

market stock from his distribution depot at premium prices, and at irregular intervals. He lamented the situation and said he saw no end in sight. The station was closed when Econoff returned to the area two days later. President Obasanjo reportedly stated during a presidential debate sponsored by the Nigeria Labour Congress on April 16 that the current government-fixed pump price of 26 naira per liter of gasoline cannot be sustained, but did not propose a specific price increase and did not indicate a government commitment to one.

Fits and Starts: NEPA Privatization Continues
While Power Capacity Expands Amidst Crises and Outages

10. (U) In late March, the Bureau of Public Enterprises (BPE) announced that the federal government had approved the naming and delineation of 18 new companies to be derived from the National Electric Power Authority (NEPA). This follows the work of the National Council on Privatization (NCP), which in August 2002 recommended the creation of six power generation business units, 11 distribution units, and one transmission unit. A spokesperson for BPE released a statement indicating the transmission company is to be named Nigerian Electricity Transmission Company Limited, and headquartered in Abuja. Generating companies are to be based essentially on current power stations, and the distribution companies will cover regional areas and population centers generally according to existing operations. It is unclear when the sale of these companies will take place. The National Assembly passed an energy reform bill, which could clear the way for the sales, but we have seen no sign that President Obasanjo will sign the bill before it expires.

11. (U) Meanwhile, the federal government has boasted of an increase in power capacity, but many communities continue experiencing power outages and load shedding. NEPA's managing director, Joseph Makoju, reported in a newspaper interview that, due to the rehabilitation of both thermal and hydro generating units, the company now has a power generation capacity of 4,800 megawatts (mw), but averages between 3,000 and 3,300 mw of output.

12. (U) Specifically, NEPA and government officials report that the Egbin Thermal Power Station on the outskirts of Lagos has all six of its turbines operational for the first time in ten years. Unconfirmed reports put Egbin's production at about 1,600 mw, but recently it produced as little as 600 mw when a natural gas line supplying the plant was cut during the ethnic crisis in Warri. Further, the Daily Trust newspaper reported that NEPA officials have admitted that power interruptions in the Abuja region will continue throughout 2003, due to insufficient transmission capacity in relation to population growth. Work has begun on new transmission lines throughout Rivers state, and there appears to be progress on expanding power supply in Bayelsa state.

Comment

13. (U) Comment. As we have commented time and again in recent weeks, all the developments reported here may be greatly affected by the ultimate outcome of the current elections. Some analysts expect the pace of deregulation and privatization of different facets of the energy sector to increase dramatically in a second Obasanjo term. Everyone is waiting to see if peace in the Delta will be maintained, and what effect the outcome of the elections will have on efforts to build sustainable mechanisms to ensure such peace and foster further development. Tough decisions regarding fuel import price parity, the scope and nature of privatizing state owned enterprises, and the intergovernmental distribution of oil revenues were delayed pending the nationwide elections. Now, the relative political strength of the winners, and the public's reaction to their victories, will be our first indications of where the Nigerian energy sector is headed in the second-half of 2003, and perhaps beyond. End comment.